

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 EA-11 FRB-02 INR-10 IO-14 NEA-10 NSAE-00

OPIC-12 LAB-06 SIL-01 SWF-02 AGR-20 IGA-02 PA-04

PRS-01 USIA-15 L-03 H-03 FEA-02 INT-08 DODE-00 ACDA-19

DRC-01 SCI-06 AEC-11 /264 W
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FM AMEMBASSY ROME

TO SECSTATE WASHDC 3884

INFO EC BRUSSELS 4963

AMCONSUL FLORENCE

AMCONSUL GENOA

AMCONSUL MILAN

AMCONSUL NAPLES

AMCONSUL PALERMO

OECD PARIS 9080

AMCONSUL TRIESTE UNN

AMCONSUL TURIN UNN

UNCLAS SECTION 1 OF 2 ROME 4025

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TAGS: EFIN, IT

SUBJ: ECONOMIC PROGRAM OF NEW RUMOR GOVERNMENT

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(B) ROME 2004 DATED FEBRUARY 11, 1974

(C) ROME 1532 DATED FEBRUARY 1, 1974

(D) ROME 1848 DATED FEBRUARY 7, 1974

(E) ROME 3176 DATED MARCH 7, 1974

1. /SUMMARY/. IN SPEECH BEFORE PARLIAMENT CONCERNING

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ECONOMIC PROGRAM OF NEW CENTER-LEFT GOVERNMENT,

PREMIER-DESIGNATE RUMOR FOR MOST PART REAFFIRMED COMMITMENT TO BASIC ECONOMIC POLICIES OF PREVIOUS CENTER-LEFT GOVERNMENT (SEE REFTELS). HE PLACED RENEWED EMPHASIS ON URGENT NEED TO COMBAT INFLATION BUT TOOK CARE TO PLACE INFLATION PROBLEM IN CONTEXT OF EQUALLY IMPORTANT GOI POLICY OF FOSTERING INDUSTRIAL PRODUCTION AND BRINGING ABOUT SOCIAL REFORM. RUMOR CITED DEFENSE OF LIRA, DEFENSE OF SALARIES, MAINTENANCE OF EMPLOYMENT LEVELS AND REALIZATION OF SOCIAL REFORMS AS OTHER MAJOR PROBLEMS FACING GOI, AND OUTLINED GOI ECONOMIC ACTION PLAN AS FOLLOWS: /END SUMMARY/.

2. /IMMEDIATE ECONOMIC PROBLEMS/: RUMOR CITED DEFICIT IN BALANCE OF PAYMENTS AND INFLATION AS MOST IMPORTANT IMMEDIATE PROBLEMS FACING GOI AND SAID GOI WOULD CONTINUE TO SEEK SOURCES WITH WHICH TO FINANCE PAYMENTS DEFICIT. IN THIS REGARD, HE REFERRED TO IMF STANDBY LOAN, ADDING THAT TREASURY MINISTER WOULD SIGN LETTER OF INTENT IN NEAR FUTURE. ALSO CITED CREDIT LINES WHICH GOI HAS ESTABLISHED WITH US FEDERAL RESERVE AND WITH EC CENTRAL BANKS AND SAID FINANCIAL SOLIDARITY REFLECTED IN THESE ARRANGEMENTS MAKE IT NECESSARY FOR GOI TO "RETURN TO EUROPE" WITH PURSUIT OF DOMESTIC ECONOMIC POLICIES WITH WHICH ITALY CAN MAKE SOLID CONTRIBUTION TO CLOSER MONETARY COOPERATION WITH EUROPE AND THE WEST.

3. /FOREIGN DEMAND/: CITED IMPORTANCE OF EXPORT SECTOR TO ITALIAN ECONOMY AND SAID GOI WOULD SEEK TO SUSTAIN EXPORT SECTOR THROUGH SELECTIVE MEASURES DESIGNED TO ASSURE AMPLE AVAILABILITY OF CREDIT OR OTHER MEANS OF PAYMENTS.

4. /CAPITAL MOVEMENTS/: PLEDGED GOI TO CONTINUE FIGHT AGAINST ILLEGAL CAPITAL FLIGHT WITH CONTINUED ADOPTION OF STRICT CONTROL MEASURES. CITED RECENT RISE IN BANK OF ITALY DISCOUNT RATE AND ISSUANCE OF MEDIUM-TERM HIGHER YIELD TREASURY BILLS AS MEASURES DESIGNED TO ENCOURAGE INVESTMENT IN ITALY AND TO REDUCE CAPITAL EXPORT, ADDING THAT THESE MEASURES WILL ENCOURAGE CLOSER MONETARY COOPERATION BETWEEN ITALY AND REST OF EC. ALSO CITED ABOLITION OF DUAL EXCHANGE MARKET AS PRELUDE TO CLOSER MONETARY COOPERATION BY BRINGING ITALIAN EXCHANGE REGIME IN LINE WITH THAT IN OTHER EC COUNTRIES.

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5. /BALANCE OF PAYMENTS/: REPEATED GOI POLICY TO SEEK REDUCTION OF NON-ESSENTIAL PETROLEUM CONSUMPTION WHILE AT SAME TIME ENCOURAGING TOURIST SECTOR WHICH IMPORTANT TO ECONOMY. HE REPEATED GOI POLICY TO REDUCE IMPORTS OF BEEF AND VEAL WHICH IMPORTANT CONTRIBUTORS TO BALANCE OF PAYMENTS DEFICIT. SAID GOI WOULD DISCOURAGE MEAT IMPORTS AND CONSUMPTION THROUGH SELECTIVE INCREASE OF IVA RATES, BY ENCOURAGING DOMESTIC BEEF PRODUCTION, AND BY ENCOURAGING DOMESTIC

CONSUMPTION OF SUBSTITUTE MEATS.

6. /PRICES/: SAID IT WOULD BE UNREALISTIC TO SEEK
GENERALIZED AND PROLONGED PRICE FREEZE IN FACE OF RISING WORLD
PRICES FOR RAW MATERIALS. HE REPEATED GOI PLEDGE TO
SEEK PRICE CONTROLS OR TO APPLY "ADMINISTRATIVE" PRICES
TO LARGE CONSUMPTION FOOD ITEMS IN LINE WITH RELATIVE IMPORTANCE
OF SUCH ITEMS TO "FOOD BASKET" EXPENDITURES OF
LOW-INCOME FAMILIES, AND ALSO REPEATED PLEDGE TO COMBAT
SPECULATIVE HOARDING OF FOOD PRODUCTS. STATED THAT SELECTIVE
PRICE FREEZE APPLICABLE TO CERTAIN INDUSTRIAL PRODUCTS
(ADOPTED LAST JULY) WOULD BE MODIFIED TO PERMIT PROMPT
VERIFICATION OR JUSTIFICATION OF INDUSTRY REQUESTS FOR
PRICE INCREASES. SAID GOI WOULD MAINTAIN PRESENT TARIFFS ON
ELECTRICAL ENERGY BASED ON AVERAGE CONSUMPTION NORMS (STILL
TO BE ESTABLISHED) OF HOUSEHOLDS. ALSO REPEATED GOI PLEDGE
TO MAINTAIN SELECTIVE RENT FREEZE BUT ALSO SAID GOI WOULD
ADOPT RENTAL CRITERIA ARMED AT SATISFYING INCREASING DEMAND FOR
LOW-COST HOUSING WHILE AT SAME TIME ASSURING ADEQUATE INVESTMENT
RETURNS ON HOUSING INVESTMENTS.

7. /BUDGET DEFICIT/: PLEDGED THATGOI WOULD CONTINUE
EFFORTS TO LIMIT BUDGETARY CURRENT SPENDING AND WOULD
ADOPT NEW BUDGETARY PROCEDURES DESIGNED TO ASSURE THAT
SPENDING LIMITS ARE MAINTAINED. IN TAX FIELD, RUMOR SAID
GOI WOULD CONTINUE FIGHT AGAINST TAX EVASION AND WOULD APPLY
STRICTER CONTROLS TO ASSURE AD
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R 221642Z MAR 74
FM AMEMBASSY ROME
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INFO EC BRUSSELS 4964
AMCONSUL FLORENCE

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OECD PARIS 9081
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8. /MEZZOGIORNO/: REPEATED GOI PLEDGE TO SEEK INDUSTRIALIZATION IN MEZZOGIORNO AND TO SPEED UP APPROVAL OF PROJECTS BY CIPE FOR WHICH FUNDS ALREADY SET ASIDE. ALSO PLEDGED TO REORGANIZE INCENTIVES TO INDUSTRIAL INVESTMENT IN SOUTH AND TO SEEK RAPID REFINANCING OF CASSA PER IL MEZZOGIORNO FOR 1976-1980 PERIOD. SAID SPENDING IN SOUTH IN 1976-1980 PERIOD IS PROJECTED AT 9,000 BILLION LIRE AND WILL EXCEED BY 2,000 BILLION LIRE THE SPENDING IN SOUTH UNDETAKE IN 1971-1975 PERIOD.

9. /AGRICULTURE/: GOI CONTINUES ASCRIBE PRIORITY TO ANIMAL BREEDING AND URGED SPEEDY APPROVAL BY PARLIAMENT
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OF BASIC LAW PROVIDING FOR EXPENDITURES OF 300 BILLION LIRE OVER NEXT FIVE YEARS IN THIS SECTOR IN COOPERATION WITH REGIONAL AUTHORITIES. ALSO PLEDGED TO MOVE FORWARD QUICKLY IN FIELDS OF REFORESTATION AND IRRIGATION. RUMOR CALLED FOR SPEEDY PASSAGE BY PARLIAMENT OF STRUCTURAL REFORM LAWS DESIGNED TO BRING ABOUT BASIC CHANGES IN AGRICULTURAL SECTOR.

10. /PUBLIC TRANSPORTATION/: STATED THAT GOI WILL SPEND SOME 2,000 BILLION LIRE OVER NEXT FIVE YEARS IN RESTRUCTURING AND MODERNIZING STATE RAILWAYS. GOI WILL SEEK IMPROVED RAIL SERVICE BETWEEN MAJOR CITIES AS WELL AS TO DEVELOPMENT OF URBAN SUBWAYS. REPEATED GOI PLEDGE TO PURCHASE 30,000 NEW BUSES OVER NEXT FIVE YEARS FOR USE ON BOTH URBAN AND INTER-CITY BUS ROUTES.

1. /HOUSING CONSTRUCTION/: REPEATED GOI PLEDGE OF MULTI-YEAR INVESTMENT PROGRAM DESIGNED TO BRING ABOUT MAXIMUM EXPANSION IN PUBLIC CONSTRUCTION SECTOR. SAID SHORT-TERM OBJECTIVES ARE TO RAISE SHARE OF PUBLIC HOUSING TO TOTAL HOUSING CONSTRUCTION, AND CALLED FOR INVESTMENTS OF 700 BILLION LIRE FOR LOW-COST PUBLIC HOUSING AND FOR PUBLICLY-ASSISTED HOUSING CONSTRUCTION.

12. /SOCIAL REFORM/: CITED URGENT NEED FOR SOCIAL REFORMS AND CALLED FOR SPEEDY APPROVAL BY PARLIAMENT OF SPENDING PROGRAM AMOUNTING TO 2,000 BILLION LIRE WITH WHICH TO BEGIN BADLY-NEEDED SCHOOL AND UNIVERSITY CONSTRUCTION.

ALSO PLEDGED GOI TO MOVE AHEAD QUICKLY IN HEALTH AND SANITATION FIELDS, STATING THAT COUNCIL OF MINISTERS WOULD APPROVE BASIC HEALTH REFORM LAW BY NEXT JULY.

13. /ENERGY CRISIS/: STATED THAT ON BASIS OF EVOLVING INTERNATIONAL SITUATION AND DOMESTIC CONSERVATION MEASURES, GOI IS OPTIMISTIC THAT IN SHORT RUN ITALY WILL BE ABLE TO OBTAIN SUFFICIENT QUANTITIES OF PETROLEUM TO MEET NEEDS OF INDUSTRIAL SECTOR, NOTWITHSTANDING SERIOUS PROBLEM OF HIGHER PRICES FOR PETROLEUM. FOR LONGER-TERM PERIOD, HOWEVER, ENERGY CRISIS POSES BROADER POLICY CONSIDERATIONS ON BASIS OF WHICH GOI IS DEVELOPING "PETROLEUM PLAN" WITH WHICH TO CONFRONT SITUATION. IN THIS REGARD, A SPECIAL COMMISSION
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HAS COMPLETED ITS WORK ON PETROLEUM PLAN AND HAS SUBMITTED ITS FINDINGS TO THE CIPE (INTER-MINISTERIAL COMMITTEE FOR ECONOMIC PROGRAMMING) WHICH WILL EXAMINE THE COMMITTEE REPORT IN NEAR FUTURE. RUMOR STATED THAT PETROLEUM PLAN WILL DEAL WITH PROBLEMS OF LONG-TERM PETROLEUM SUPPLIES, DETERMINATION OF PRICES FOR PETROLEUM PRODUCTS, ROLE OF ENI IN THE PETROLEUM SECTOR, AND OTHER RELATED PROBLEMS WITH LONG-TERM IMPLICATIONS. RUMOR SAID GOI ALSO WILL MOVE AHEAD IN CONSTRUCTION OF THERMO-ELECTRICAL PLANTS IN ORDER TO ASSURE AMPLE ENERGY SUPPLIES WHILE AT SAME TIME DIVERSIFYING SOURCES OF ENERGY. IN THIS REGARD, RUMOR ALSO CITED AGREEMENT BETWEEN ENI AND ALGERIAN GOVERNMENT FOR SUPPLIES OF NATURAL GAS AND THE SPEEDING UP BY ENEL OF PLANS TO CONSTRUCT ELECTRO-NUCLEAR PLANTS. RUMOR AVOIDED REFERENCE TO POSSIBILITY OF GASOLINE RATIONING, STATING ONLY THAT GOVERNMENT WOULD TAKE APPROPRIATE MEASURES SUBSEQUENT TO OBTAINING PARLIAMENTARY VOTE OF CONFIDENCE.

14. /COMMENT/: WIDE-RANGING GOVERNMENT ECONOMIC PROGRAM OUTLINED ABOVE CONTAINS LITTLE THAT IS NEW AND IN LARGE MEASURE REPRESENTS A REPETITION OF THE ECONOMIC OBJECTIVES OF PREVIOUS RUMOR GOVERNMENT WHICH WERE STATED FOLLOWING MEETING BETWEEN GOVERNMENT AND LABOR LEADERS ON FEBRUARY 9 (SEE REFTEL). NEW ELEMENT OF ECONOMIC PROGRAM PERHAPS IS REFLECTED IN STATEMENT BY RUMOR THAT INFLATION IS SERIOUS PROBLEM AND WILL RECEIVE SERIOUS ATTENTION OF GOVERNMENT WHICH, HOWEVER, ALSO CONCERNED WITH FOSTERING INDUSTRIAL PRODUCTION AND SOCIAL REFORM. THUS NEW CENTER-LEFT GOVERNMENT OFFICIALLY COMMITTED TO DIFFICULT AND SEEMINGLY INCONSISTENT POLICIES OF FIGHTING INFLATION WHILE AT SAME TIME ENCOURAGING ECONOMIC GROWTH. ECONOMIC PROGRAM CITED ABOVE TO STIMULATE ECONOMY IN WAKE OF SERIOUS INFLATION AND BALANCE OF PAYMENTS PROBLEMS CONNECTED WITH ENERGY CRISIS PROBABLY REPRESENTS AS MUCH AS CAN BE EXPECTED GIVEN DIFFICULT POLITICAL CLIMATE WITHOUT GOVERNMENT RUNNING POLITICALLY UNACCEPTABLE RISK OF INCURRING ECONOMIC RECESSION BY STRICTER DEMAND MANAGEMENT. VOLPE

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